

ILLINOIS MUNICIPAL RETIREMENT FUND
MEETING NO. 16-02-I

MEETING OF THE
INVESTMENT COMMITTEE

The Investment Committee met in the IMRF offices in Oak Brook, Illinois, on Thursday, February 25, 2016. Mr. Kuehne, Chairman of the Investment Committee, called the meeting to order at 2:02 P.M.

(16-01-01)(Roll Call) Mr. Sambol called the roll:

Present: Copper; Stanish; Kuehne; Piechocinski; Henry
Absent: Miller; Thompson

Also in attendance were: Mr. Kloepfer, Ms. Becker-Wold and Mr. Ball of Callan Associates; Ms. Shah, IMRF Chief Investment Officer; Mr. Sambol, IMRF Investment Officer - Operations; and IMRF Investment Staff.

(16-02-02)(Public Comments) There were no public comments.

(16-02-03)(Action Items)

- A. Approve Investment Committee Meeting Minutes from December 17, 2015 Meeting
The Chairman asked for the approval of the minutes of the December 17, 2015 Investment Committee Meeting.

It was moved by Mr. Piechocinski; and seconded by Ms. Copper; that the minutes of the December 17, 2015 meeting of the Investment Committee be approved.

Vote:

The motion was approved unanimously.

(16-02-04)(Staff Presentation)

- A. Private Equity Recommendations The Chief Investment Officer presented an overview of four venture capital and three private equity funds. The venture capital funds included Mayfield XV and Mayfield Select; and Lightspeed Venture Partners XI, L.P., and Lightspeed Venture Partners Select II, L.P. The private equity funds included Vista Equity Partners Fund VI, L.P., Vista Foundation Fund III, L.P., and Vista Credit Opportunities Fund II, L.P. After this presentation, the Chief Investment Officer recommends:

- allocating up to \$30 million in aggregate to Mayfield XV and Mayfield Select subject to satisfactory legal due diligence;

- allocating up to \$35 million in aggregate to Lightspeed Venture Partners XI, L.P., and Lightspeed Venture Partners Select II, L.P., subject to satisfactory legal due diligence;
- allocating up to \$100 million to Vista Equity Partners Fund VI, L.P., subject to satisfactory legal due diligence;
- allocating up to \$25 million to Vista Foundation Fund III, L.P., subject to satisfactory legal due diligence;
- allocating up to \$50 million to Vista Credit Opportunities Fund II, L.P., subject to satisfactory legal due diligence; and,
- authorizing Staff to complete all documentation necessary to execute these recommendations

(16-02-05)(Manager Presentations)

- A. Mayfield XV and Mayfield Select Messrs. Chaddha and Beck of Mayfield XV and Mayfield Select presented a review of their firm's organization structure, investment strategy and product. This presentation was followed by questions from the Committee.
- B. Lightspeed Venture Partners XI, L.P., and Lightspeed Venture Partners Select II, L.P. Mr. Nieh of Lightspeed Venture Partners XI, L.P., and Lightspeed Venture Partners Select II, L.P., presented a review of their firm's organization structure, investment strategy and product. This presentation was followed by questions from the Committee.
- C. Vista Equity Partners Fund VI, L.P., Vista Foundation Fund III, L.P., and Vista Credit Opportunities Fund II, L.P. Ms. Pastore, Ms. Jurczyk and Mr. Sheth of Vista Equity Partners Fund VI, L.P., Vista Foundation Fund III, L.P., and Vista Credit Opportunities Fund II, L.P. presented a review of their firm's organization structure, investment strategy and product. This presentation was followed by questions from the Committee.

(16-02-06)(Action Items)

- A. Approve Allocations to Mayfield XV, Mayfield Select, Lightspeed Venture Partners XI, L.P., Lightspeed Venture Partners Select II, L.P., Vista Equity Partners Fund VI, L.P., Vista Foundation Fund III, L.P., and Vista Credit Opportunities Fund II, L.P. It was moved by Ms. Henry; and seconded by Ms. Copper; to recommend that the Board approve:

- allocating up to \$30 million in aggregate to Mayfield XV and Mayfield Select subject to satisfactory legal due diligence;
- allocating up to \$35 million in aggregate to Lightspeed Venture Partners XI, L.P., and Lightspeed Venture Partners Select II, L.P., subject to satisfactory legal due diligence;
- allocating up to \$100 million to Vista Equity Partners Fund VI, L.P., subject to satisfactory legal due diligence;
- allocating up to \$25 million to Vista Foundation Fund III, L.P., subject to satisfactory legal due diligence;
- allocating up to \$50 million to Vista Credit Opportunities Fund II, L.P., subject to satisfactory legal due diligence; and,
- authorizing Staff to complete all documentation necessary to execute these recommendations

Vote:

The motion was approved unanimously.

--Ms. Stanish, member of the IMRF Investment Committee, left the meeting at 4:03 P.M.

(16-02-07)(Break) The Committee recessed at 4:03 P.M.

--The meeting of the Investment Committee reconvened at 4:11 P.M.

(16-02-08)(Consultant and Staff Presentation)

A. 2016 Asset Allocation Review Mr. Kloefer and Ms. Becker-Wold of Callan Associates; and the Chief Investment Officer presented the 2016 Annual Asset Allocation Review to the Committee. The Chief Investment Officer and Consultant noted that no changes to IMRF's asset allocation were being recommended at this time.

(16-02-09)(Staff Presentation)

A. Hedge Fund Recommendation – SM Aurora The Chief Investment Officer recommended:

- authorizing Staff to initiate a full redemption of SM Aurora, L.P., and
- authorizing Staff to complete any documentation necessary to execute this recommendation

(16-02-10)(Action Item)

A. Approve Hedge Fund Recommendation – SM Aurora It was moved by Ms. Henry; and seconded by Mr. Piechocinski; to recommend that the Board:

- authorize Staff to initiate a full redemption of SM Aurora, L.P., and
- authorize Staff to complete any documentation necessary to execute this recommendation

Vote:

The motion was approved unanimously.

(16-02-11)(Staff Presentation)

A. Wall Street Recommendation The Chief Investment Officer recommended:

- authorizing Staff to initiate a prudent liquidation of the Wall Street Micro Cap portfolio; if deemed necessary by the Chief Investment Officer;
- authorizing Staff to execute this recommendation at any time over the next twelve months without further approval from the IMRF Board; and,
- authorizing Staff to complete any documentation necessary to execute this recommendation

(16-02-12)(Action Item)

A. Approve Wall Street Recommendation It was moved by Ms. Henry; and seconded by Mr. Piechocinski; to recommend that the Board:

- authorize Staff to initiate a prudent liquidation of the Wall Street Micro Cap portfolio; if deemed necessary by the Chief Investment Officer;
- authorize Staff to execute this recommendation at any time over the next twelve months without further approval from the IMRF Board; and,
- authorize Staff to complete any documentation necessary to execute this recommendation

Vote:

The motion was approved unanimously.

(16-02-13)(Staff Presentation)

- A. Review of Recommended Changes to Investment Committee Charter, Statement of Investment Policy and Real Estate Statement of Investment Policy
The Chief Investment Officer presented an overview of recommended changes to IMRF's Investment Committee Charter, Statement of Investment Policy, and Real Estate Statement of Investment Policy to the Committee. She noted that these documents are presented, reviewed and approved annually. The Chief Investment Officer concluded by asking the Committee to recommend that the Board:
- approve the 2016 Investment Committee Charter as amended;
 - approve the 2016 Statement of Investment Policy as amended; and,
 - approve the 2016 Real Estate Statement of Investment Policy as amended

(16-02-14)(Action Items)

- A. Approve Investment Committee Charter, Statement of Investment Policy and Real Estate Statement of Investment Policy It was moved by Mr. Piechocinski; and seconded by Ms. Copper; to recommend that the Board:
- approve the 2016 Investment Committee Charter as amended;
 - approve the 2016 Statement of Investment Policy as amended; and,
 - approve the 2016 Real Estate Statement of Investment Policy as amended

Vote:

The motion was approved unanimously.

(16-02-15)(Staff Reports)

- A. 2015 Annual Minority & Emerging Investment Manager Utilization Report
Staff presented the 2015 Annual Minority & Emerging Investment Manager Utilization Report to the Committee. Highlights from this report include the following:
- Minority investment managers invest \$6.47 billion on IMRF's behalf, representing a 3.0% increase over 2014
 - Minority investment managers represent 18.9% of the Total Fund's market value and 26.5% of IMRF's actively managed assets

- Emerging investment managers invest \$5.37 billion on IMRF's behalf
- Emerging investment managers represent 15.7% of the Total Fund's market value and 22.04% of IMRF's actively managed assets
- IMRF maintains direct relationships with minority and emerging investment managers in all asset classes except timberland and agriculture

B. 2015 Annual Minority Broker Utilization Report The 2015 Annual Minority Broker Utilization Report was presented to the Committee. Highlights from this report include the following:

- IMRF exceeded its minority brokerage goals by asset class
- Minority broker/dealers earned 27.39% of total commissions
- IMRF's total commissions amounted to \$18.7 million, representing a 12.4% decrease, or \$2.6 million, from 2014
- Minority broker/dealers earned over \$5.1 million in commissions, representing a decrease of 3.1%, or \$162,000, from 2014
- Since 2006, minority broker/dealers have earned over 20% of IMRF's broker/dealer commissions each year
- IMRF's investment managers traded with 32 minority broker/dealers
- Recommended increased minority brokerage goal for U.S. equities and established a separate minority brokerage goal of 30% for U.S. large cap equities
- Revised minority brokerage goal language to read:
 - Utilization of minority broker/dealers are based on commission dollars for U.S. Equities and par value for Fixed Income;
 - Pooled/commingled fund investment managers efforts to execute trade with minority broker/dealers will be evaluated during semi-annual portfolio meetings;
 - Transition managers will be expected to meet or exceed IMRF's current minority brokerage goals;
 - Consequences for not meeting IMRF's minority brokerage goals range from increased monitoring, watch-list placement, asset reduction, termination, and exclusion from receiving additional allocations/mandates

C. 2015 Annual Proxy Voting Activity Report Staff presented the 2015 Annual Proxy Voting Activity Report to the Committee. Highlights from this report include the following:

- Recommended revisions to proxy policy include:
 - Language under “case-by-case exceptions” clarifying that privately-held companies are not covered by IMRF’s third-party proxy voting advisor’s research and to identify the process Staff will when these exceptions arise;
 - Proxy Access language stating that IMRF believes that companies should allow shareholder access to director nomination process and to the company’s proxy voting statement;
 - Board Diversity Language stating that IMRF believes that increasing diversity in the boardroom enhances shareholder value;
 - Equal Opportunity language stating that IMRF recognizes the importance of gender and ethnic diversity;
 - Language under Social, Political and Environmental Issues clarifying that IMRF will abstain from voting on these proposals in accordance with the Board’s fiduciary duty to act solely in the economic interest of the Fund

- 2015 Proxy Voting Highlights include:
 - 3,970 domestic and international ballots were voted last year;
 - 43,833 proposals were voted last year;
 - 1,652 domestic proposals were voted against management;
 - 2,593 international proposals were voted against management;
 - 1,243 domestic non-salary compensation proposals were voted, of which 132 (or 11%) were against management;
 - 1,797 international non-salary compensation proposals were voted, of which 371 (or 21%) were against management;
 - 6,954 domestic director-related proposals were voted, of which 316 (or 5%) were against management;
 - 11,221 international director-related proposals were voted, of which 950 (or 8.5%) were against management

D. 2015 Annual Securities Lending Activity Report The 2015 Annual Securities Lending Activity Report was presented to the Committee. Highlights from this report include the following:

- IMRF generated \$12.6 million in securities lending income across separate accounts with an average out-on-loan balance of \$2.0 billion
- IMRF's total securities lending income, including passive index funds, amounted to \$16.2 million
- IMRF's securities lending collateral was transferred from the Northern Trust's Core USA Fund to the new Core STIF Fund
- Securities Lending Program was modified to:
 - implement a high intrinsic lending directive to improve risk profile;
 - increase earnings split with Northern Trust from 90/10 to 93/7;
 - generate better risk-adjusted earnings due to lower out-on-loan volume and increased earnings split

(16-02-16)(New Business) There was no new business presented or discussed during the meeting.

--The next meeting of the Investment Committee is scheduled to be held on Thursday, May 19, 2016 beginning at 2:00 P.M.

(16-02-17)(Trustee Comments) There were no trustee comments.

(16-02-18)(Adjourn) By unanimous consent, the meeting of the Investment Committee adjourned at 5:50 P.M.

Sue Stanish
Chairman

5/19/16
Date

Edward J. Fambal
Clerk

May 19, 2016
Date